

If Prop. 40 passes, it will be part of the 2028 Democratic campaign.

The Wealth Tax Stakes in California

REVIEW & OUTLOOK

California is the nation's biggest laboratory for progressive policies and now stands as the political testing ground for the next socialist crusade—a wealth tax. Vermont Sen. Bernie Sanders made the stakes clear at a recent rally in the state stumping for Prop. 40, a ballot initiative that would establish a 5% tax on residents with more than \$1 billion in net worth.

“The whole country, and frankly people from around the world, are paying attention to what is happening here,” the Vermont socialist said. “People are asking: ‘Is it possible?’ And you are going to do it and show the world it is possible?” He’s right that the stakes are bigger than the Golden State. As Californians vote, so the Democratic Party is likely to follow.

Championing the initiative is the SEIU United Healthcare Workers West, which claims the (supposedly) one-time wealth tax will raise \$100 billion. That’s doubtful since many billionaires have already vamoosed to other states. California Tax Foundation visiting fellow Jared Walczak estimated this spring that departures had already taken \$777 billion in wealth out of the state.

This flight is a major reason Gov. Gavin Newsom, the California Teachers Association and pragmatic Democrats like San Francisco Mayor Daniel Lurie oppose the tax. The teachers union is also angry that healthcare programs would soak up 90% of the proceeds, bypassing a state constitutional requirement that roughly half of tax revenue go to public schools.

Targeted individuals would have to pay tax on nearly all their assets worldwide, including artwork, trusts, yachts, business interests and even a dependent’s assets. A Rembrandt in a Miami penthouse would be taxable in California.

The tax would also apply to a taxpayer’s share of voting control in private companies. So if a startup founder owns 10% of shares that carry 50% of voting rights, he’d have to pay tax as if he owned 50% of shares. This is intended to punish entrepreneurs who exercise control over companies.

As the Hoover Institution’s Joshua Rauh explains in a new paper, Prop. 40 sets a trap for taxpayers by determining liability based on residency on Jan. 1, 2026. Because it can take months to establish residency in another state, billionaires would likely have had to initiate their relocation last autumn.

Yet they could still be soaked if the state Franchise Tax Board determines based on “all the facts and circumstances” that “a substantial purpose” of their move was to avoid the tax. The wealth tax’s supporters say it won’t spur billionaires to leave, but then why write in this “general antiavoidance” rule? Prop. 40 calculates a person’s net worth for the purposes of assessing liability on Dec. 31, 2026. If markets and shares in high-flying companies later tumble, tough. The measure would allow taxpayers with illiquid assets—say, shares in private companies—to stretch out their payments over five years, but at a hefty 7.5% annual interest charge.

Oh, and don’t believe the claim that this is a one-time tax to deal with federal Medicaid cuts. Federal Medicaid payments to California have increased 14% (\$16.4 billion) over the last year and exceed the entire general fund budgets of all 49 other states. The wealth-tax revenue would be baked into California’s Medicaid budget, much of which will go to fraudsters.

Proponents will almost certainly later seek to extend the tax beyond a year, or lower the wealth threshold at which it hits. All they would need is a two-thirds vote of the Legislature and the Governor’s signature. Democrats control roughly three-quarters of seats in both chambers. If voters approve the tax, Democrats may be emboldened to expand it.

There are also strong arguments that the tax violates the state and U.S. constitutions, including the Fifth Amendment’s takings clause and the Commerce Clause. But don’t bet on California’s progressive High Court striking it down. There’s also no

guarantee the U.S. Supreme Court will step in to save Californians from their policy blunder.

Recent polls show Prop. 40 narrowly ahead, and Mr. Newsom has failed to forcefully oppose it. Instead, he has forged common cause with its supporters by endorsing a national wealth tax and fanning the scare about the GOP Medicaid reform. If the measure passes, he and other Democrats are certain to make a wealth tax a main plank of their platforms for the White House in 2028.

European nations have imposed taxes on individual net worth over the years, but most have repealed them. They have failed as economic or revenue-raising policy. Americans have long resisted a tax on wealth. Local property taxes on homes are relatively small. If Californians cross this Prop. 40 Rubicon, get ready for a new era of wealth confiscation in America.

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